

KENTUCKY ECONOMIC INDICATORS

May 2005 Indicators as of July 25, 2005

KY Composite Index of Leading Indicators decreased 1.9 percent for May.

- The Leading Index increased for the second time since August 2004.
- The Leading Index rose by 0.9 percent over the same month last year.
- Component indicators were mostly negative, 3:1.
 - KY Labor Intensity Index decreased 0.9 percent.
 - o The US Leading Index was unchanged 0.0 percent.
 - The Index of KY Initial UI Claims decreased 11.1 percent.
 - US Retail Sales decreased 3.4 percent.
 - + The Louisville Help Wanted Index decreased by 46.0 percent.

Component weights for May are 52.44, 19.81, 15.31, 10.68 and 1.76 respectively.

KY Composite Index of Coincident Indicators increased 2.1 percent for May.

- The Coincident Index was positive for the fourth consecutive month.
- Same-month-last-year growth is positive for the twenty-second consecutive month at 2.3 percent.
- Component indicators were all positive for May.
 - + KY Total Nonagricultural Employment increased 1.3 percent.
 - + US Industrial Production Index increased 4.2 percent.
 - + US Personal Income Less Transfers increased 1.7 percent.

Component weights for May are 32.69, 29.89 and 26.52 respectively. Component weights do not sum to one because the two US components were discounted to allow the Kentucky component more weight.

Every component indicator changed its sign from April to May. The US Leading Index was flat for the second straight month. Component indicators have become very erratic over the last six months. This has no significance for the Kentucky Leading Index in a historical sense, but it does mean that no one area of the economy is following a clear trend.

The Kentucky Labor Intensity Index experienced a small decline for May. The series has made up 44.2 percent of its losses since the 2001 recession. Employment in the five Labor Intensity Index industries has followed a similar pattern. Each has recovered nearly all of its losses from the 2001 recession. This result illustrates the marked differences between the Labor Intensity Index industries and manufacturing employment as a whole. It is now exactly five years since Kentucky Manufacturing Employment peaked with 312,000 jobs. Kentucky has lost 45,800 manufacturing jobs since that time. There is no evidence of any recovery to date.

The Conference Board substantially revised the US Leading Index this month. The Interest Rate Spread (10-year Treasury bonds minus the federal funds rate) computation has been substantially altered. A trend adjustment was made to improve the usefulness and interpretation of the Leading Index series. Vendor Performance and the Index of Consumer Expectations will now be implemented into the Leading Index series by simple difference instead of a percentage weight. There are several ramifications of this change. The absolute level of the series has changed. The magnitudes of the month to month growth rates have changed. And in some cases, the signs of the month to month growth rates have changed relative to the previous series. The US Leading Index was flat for May, and therefore had no impact on the Kentucky Leading Index. The US Leading Index will be reexamined in the coming months to determine if it still has value in leading the Kentucky economic variables.

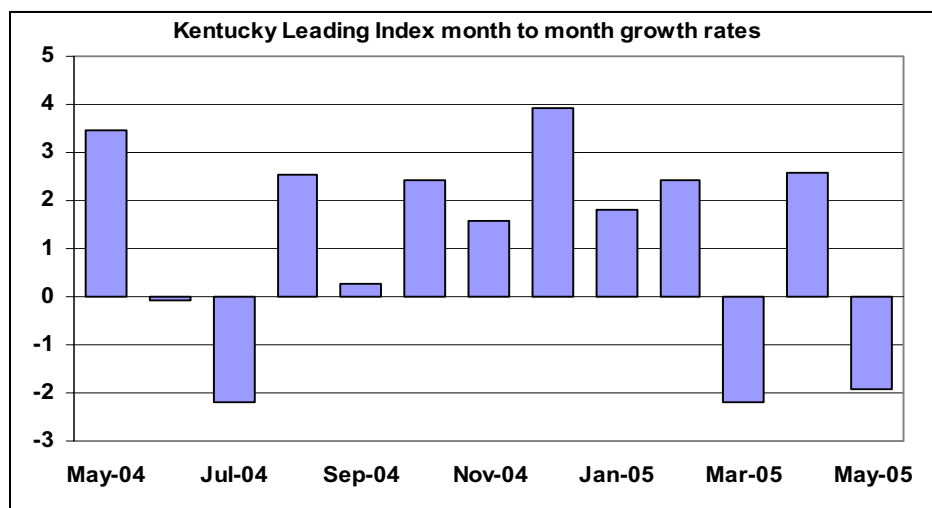
The Kentucky Index of Unemployment Insurance Claims has alternated its month-to-month growth rate sign for the seventh consecutive month. The series is up only marginally from its May 2004 value. While the series has shown little growth in the last year, the series has improved considerably since its 2001 recession trough. The index has now regained 59.1 percent of its 2001 recession losses. The Index has considerable monthly variation as indicated by its weight in the series. There is only a small upward trend in the series.

US Retail Sales declined by 3.4 percent in May. However, the series is still performing quite well because of the huge increase in April. The slope of the series has increased over the last two years and therefore the series is operating above its trendline both in the short run and long run. While US Retail Sales does have considerable variance over time, it has a very strong trend component. The series is performing very positively right now.

The Louisville Help Wanted Index rose for the first time in four months. This series has not shown very much movement lately. As online help wanted advertisers like monster.com and careerbuilder.com gain in popularity, the presence of newspaper advertisements may be declining. Alternatively, the nature of the slow recovery in employment during this recession may have impacted newspaper advertisements in a negative way.

Kentucky Nonagricultural Employment improved by 2,000 jobs in May. The growth in the labor market is consistent and increasing in strength.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the *University of Kentucky Center for Business and Economic Research Kentucky Annual Economic Report, 2000*.



About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky UI claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **Louisville Help-wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **GOEA U.S. Leading Index:** We eliminated two variables, UI Claims and weekly hours, from the U.S. leading index since we already use the Kentucky equivalents. The remaining eight components of the U.S. leading index were tested, eliminating both the interest rate spread and the slower deliveries diffusion index of vendor performance. The remaining six components were then re-indexed by GOEA.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.ky.gov

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**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2004												2005				
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY				
KY Leading Index (1992=100)	117.7	117.6	117.4	117.7	117.7	117.9	118.1	118.5	118.6	118.9	118.7	118.9	118.7	118.7	118.9	118.7	118.7
% Chg Previous Month SAAR	3.5	-0.1	-2.2	2.6	0.3	2.4	1.6	3.9	1.8	2.4	-2.2	2.6	-1.9	3.5	2.6	-1.9	-1.9
% Chg Same Month Last Year	3.5	3.1	2.4	2.4	1.6	2.2	2.0	1.9	1.9	1.8	1.0	1.4	0.9	3.5	1.4	0.9	0.9
KY Coincident Index (1992=100)	130.4	130.3	130.6	130.9	130.8	131.5	131.8	133.8	132.6	132.9	133.0	133.2	133.4	130.4	133.2	133.2	133.4
% Chg Previous Month SAAR	2.6	-0.8	3.4	2.3	-1.0	6.9	3.3	19.2	-10.5	2.8	1.7	1.2	2.1	2.6	1.2	2.1	2.1
% Chg Same Month Last Year	2.6	2.4	2.5	2.6	2.2	2.5	2.3	3.6	2.6	2.5	2.7	2.4	2.3	2.6	2.4	2.3	2.3
KY Nonag Employment (000s)	1,793.6	1,796.5	1,789.7	1,796.7	1,798.6	1,801.0	1,800.7	1,802.7	1,802.4	1,803.6	1,807.1	1,815.1	1,817.1	1,793.6	1,807.1	1,815.1	1,817.1
% Chg Previous Month SAAR	-1.9	2.0	-4.4	4.8	1.3	1.6	-0.2	1.3	-0.2	0.8	2.4	5.4	1.3	-1.9	2.4	5.4	1.3
% Chg Same Month Last Year	0.7	1.0	0.7	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.8	1.0	1.3	0.7	0.8	1.0	1.3
KY Mfg Employment (000s)	264.5	264.2	258.2	264.6	264.4	265.5	264.7	264.2	264.6	264.5	265.1	266.0	266.2	264.5	265.1	266.0	266.2
% Chg Previous Month SAAR	1.4	-1.4	-24.1	34.2	-0.9	5.1	-3.6	-2.2	1.8	-0.5	2.8	4.2	0.9	1.4	2.8	4.2	0.9
% Chg Same Month Last Year	-0.2	-0.1	-2.4	0.1	0.0	0.5	0.2	-0.2	0.0	0.0	0.3	0.7	0.6	-0.2	0.3	0.7	0.6
KY Unemployment Rate (%)	5.7	5.7	5.6	5.7	5.8	5.7	5.9	6.0	6.0	6.2	6.2	6.4	6.3	5.7	6.2	6.4	6.3
KY Index of Initial UI Claims	102.4	102.5	101.7	102.0	102.5	103.0	102.4	103.1	102.8	104.0	103.3	103.7	102.7	102.4	103.3	103.7	102.7
% Chg Previous Month SAAR	3.1	1.1	-9.2	3.6	6.1	5.9	-6.5	8.4	-3.2	14.5	-7.4	3.8	-11.1	3.1	-7.4	3.8	-11.1
% Chg Same Month Last Year	3.2	3.3	1.9	1.7	2.4	1.9	1.1	1.7	1.0	2.6	1.2	1.5	0.2	3.2	1.2	1.5	0.2
KY Labor Intensity Index (1992=100)	105.1	105.0	104.9	105.1	105.1	105.1	105.3	105.3	105.7	105.6	105.7	105.8	105.7	105.1	105.7	105.8	105.7
% Chg Previous Month SAAR	0.6	-1.2	-1.5	2.4	0.7	0.2	1.5	0.6	4.0	-1.0	1.2	1.0	-0.9	0.6	1.2	1.0	-0.9
% Chg Same Month Last Year	1.0	1.0	0.6	0.7	0.7	0.7	0.7	0.8	1.0	0.8	0.7	0.7	0.6	1.0	0.7	0.7	0.6
Louisville HWI (1992=100)	48.0	51.0	45.0	47.0	40.0	41.0	42.0	41.0	42.0	41.0	40.0	38.0	39.0	48.0	40.0	38.0	39.0
% Chg Previous Month SAAR	-51.7	107.0	-77.7	68.5	-85.6	34.5	33.5	-25.1	33.5	-25.1	-25.6	-46.0	36.6	-51.7	-25.6	-46.0	36.6
% Chg Same Month Last Year	2.1	4.1	-10.0	0.0	-45.2	-18.0	-14.3	-28.1	-16.0	-25.5	-28.6	-25.5	-18.8	2.1	-28.6	-25.5	-18.8
GF Total Tax Receipts (\$ mill)	479.5	633.7	519.1	513.4	655.0	563.6	587.9	709.7	659.6	500.8	568.6	808.4	525.6	479.5	500.8	808.4	525.6
% Chg Same Month Last Year	15.1	2.6	10.2	11.7	4.1	6.3	10.7	5.0	13.1	8.3	11.7	12.1	9.6	15.1	8.3	11.7	9.6
GF Sales & Use Receipts (\$ mill)	205.6	199.7	226.1	211.7	206.6	224.0	201.1	217.7	271.4	176.3	200.1	224.2	216.1	205.6	176.3	200.1	216.1
% Chg Same Month Last Year	8.1	4.2	8.6	7.3	3.1	5.0	1.0	4.7	8.8	7.5	8.2	3.1	5.1	8.1	7.5	8.2	5.1
GF Income Tax Receipts (\$ mill)	189.6	270.2	224.2	245.2	272.2	249.9	230.2	259.0	252.6	231.5	176.1	413.7	215.3	189.6	231.5	176.1	215.3
% Chg Same Month Last Year	19.8	0.8	8.5	9.4	-0.3	9.5	2.8	4.6	21.9	6.6	24.0	12.8	13.6	19.8	6.6	24.0	13.6

**SELECTED U.S. ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2004												2005				
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY				
US Leading Index (1982=100)	134.0	134.5	135.0	135.1	135.2	135.2	136.0	136.9	136.8	137.2	136.2	136.5	136.5				
% Chg Previous Month SAAR	6.5	4.6	4.6	0.9	0.9	0.0	7.3	8.2	-0.9	3.6	-8.4	2.7	0.0				
% Chg Same Month Last Year	8.9	8.4	7.9	7.4	6.7	5.7	5.7	5.5	4.5	4.4	2.4	2.4	1.9				
US Coincident Index (1992=100)	117.3	117.3	117.7	117.9	117.9	118.4	118.8	120.3	119.5	119.7	119.8	120.1	120.2				
% Chg Previous Month SAAR	4.2	0.0	4.2	2.1	0.0	5.2	4.1	16.2	-7.7	2.0	1.0	3.0	1.0				
% Chg Same Month Last Year	2.9	2.6	2.7	2.9	2.6	2.9	2.8	3.9	3.1	3.0	2.7	2.7	2.5				
US Nonag Employment (Mil.)	131.4	131.5	131.6	131.8	131.9	132.2	132.3	132.4	132.6	132.9	133.0	133.3	133.4				
% Chg Previous Month SAAR	2.3	1.0	0.8	1.7	1.2	2.6	1.2	1.4	1.1	2.7	1.1	2.7	0.9				
% Chg Same Month Last Year	1.2	1.3	1.3	1.5	1.5	1.6	1.6	1.7	1.7	1.8	1.7	1.7	1.5				
US Unemployment Rate (%)	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4	5.2	5.4	5.2	5.2	5.1				
US Initial Claims for UI (000s)	343.5	339.7	342.4	340.5	344.9	338.6	334.1	330.0	330.1	307.4	337.8	321.9	334.7				
% Chg Previous Month SAAR	-6.7	-12.5	10.0	-6.5	16.7	-19.8	-14.8	-13.8	0.4	-57.5	210.1	-43.9	59.7				
% Chg Same Month Last Year	-19.3	-19.0	-14.4	-14.8	-13.4	-11.0	-8.9	-8.7	-7.0	-13.7	-1.9	-6.8	-2.6				
US Industrial Production Index	115.5	115.1	115.9	116.0	115.7	116.6	116.9	117.9	117.8	118.3	118.6	118.2	118.6				
% Chg Previous Month SAAR	8.7	-4.2	8.8	1.1	-3.3	10.1	3.1	10.3	-1.6	5.8	3.0	-3.7	4.2				
% Chg Same Month Last Year	5.4	4.7	4.8	5.0	3.9	4.6	3.8	4.4	4.0	3.4	3.9	3.0	2.7				
US Personal Income Less Trans. (Bil. 92\$)	7,614.5	7,612.0	7,667.1	7,676.2	7,666.1	7,744.2	7,802.0	8,157.1	7,891.6	7,912.8	7,913.7	7,926.9	7,938.2				
% Chg Previous Month SAAR	2.8	-0.4	9.0	1.4	-1.6	12.9	9.3	70.6	-32.8	3.3	0.1	2.0	1.7				
% Chg Same Month Last Year	3.0	2.7	3.2	3.2	2.9	3.4	3.4	8.0	4.7	4.8	4.7	4.3	4.3				
CPI, All Urban (1982-84=100)	188.8	189.3	189.2	189.3	189.6	190.7	191.2	191.2	191.3	192.0	193.2	194.2	194.1				
% Chg Previous Month SAAR	7.3	3.2	-0.6	0.6	1.9	7.2	3.2	0.0	0.6	4.5	7.8	6.4	-0.6				
% Chg Same Month Last Year	3.0	3.2	2.9	2.7	2.5	3.2	3.6	3.4	2.9	2.9	3.2	3.5	2.8				
US Retail Sales (Bil. 84\$)	324.4	320.0	324.0	323.7	329.4	332.3	332.4	336.6	336.8	339.0	340.1	346.1	345.1				
% Chg Previous Month SAAR	31.6	-15.2	16.2	-1.2	23.5	10.8	0.4	16.2	0.7	8.1	3.9	23.4	-3.4				
% Chg Same Month Last Year	9.4	6.2	6.6	4.8	7.6	8.6	7.3	8.9	8.0	8.0	6.0	9.1	6.4				
Manufacturing & Trade Sales (000s)	916.9	920.2	925.4	928.7	930.5	931.6	933.5	947.3	950.7	941.9	941.1	949.5	*949.5				
% Chg Previous Month SAAR	1.1	4.4	7.0	4.4	2.3	1.5	2.4	19.3	4.4	-10.6	-1.0	11.2	0.0				
% Chg Same Month Last Year	7.5	6.4	5.5	6.4	5.9	5.5	5.1	5.8	6.3	4.8	2.1	3.6	3.6				
US Consumer Expectations (1966=100)	81.6	88.5	91.2	88.2	88.0	83.8	85.2	90.9	85.7	84.4	82.8	77.0	75.3				
% Chg Previous Month AR	-55.5	164.9	43.4	-33.1	-2.7	-44.4	22.0	117.5	-50.7	-16.8	-20.5	-58.2	-23.5				
% Chg Same Month Last Year	-10.7	2.4	9.0	6.9	8.9	1.0	-3.3	1.2	-14.4	-4.6	-6.8	-11.8	-7.7				
Ave. Prime Interest Rate (%; NSA)	4.00	4.00	4.25	4.42	4.58	4.75	4.93	5.14	5.25	5.49	5.58	5.75	5.98				

*ARIMA estimation